

Wealth-destroying states

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Abstract According to the contract theory of the state, individuals give up their freedom to a specialist in violence who provides public goods, such as private property rights and collective defense, in exchange for the right to tax citizens. The predatory perspective views the state as expropriating what it can unless individuals develop institutions of collective action to continually constrain the scope of the state. We extend the predatory theory by showing how the behavior of rulers depends on political stability, political constraints, the nature of self-governance, and foreign intervention. We use evidence from Afghanistan to illustrate how political instability and the absence of meaningful political constraints enables the predatory state. Foreign aid and foreign military intervention amplify the wealth-destroying features of political institutions. Customary self-governance provides public goods locally but is only a partial defense against predatory rulers and can be overwhelmed by predatory self-governing organizations, especially the Taliban.

Keywords Contract theory of the state • Predatory theory of the state • Political institutions • Polycentricity • Spontaneous order • Self-governance • Foreign aid • Afghanistan

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The authors thank Sam DeCanio, Wanlin Lin, John Meadowcroft, Liya Palagashvili, Mark Pennington, Paul Sagar, Irena Schneider, Mehrdad Vahabi, and seminar participants at the Centre for the Study of Governance and Society at King's College London, for valuable comments.

1 Introduction

One of the contributions of the public choice literature is helping to understand the relationship between centralization of state capacity and wealth creation.¹ One way to divide this literature is into the contract and predatory perspectives on the state (Acemoglu and Johnson 2005; North 1981). The contract perspective is exemplified by Thomas Hobbes, who in *Leviathan* argued that people give up their freedom to a specialist in violence who provides property rights, collective defense, and other public goods in exchange for the right to tax citizens. The loss of freedom was not a bad thing for Hobbes because he believed that life was terrible under anarchy.² Subsequent economic studies in this tradition argued that the state can more efficiently provide public goods than smaller-scale political organizations, including city-states, leagues, and feudal, customary, and tribal organizations (De Long and Shleifer 1993; North 1981; Olson 1993; Tilly 1990). The emergence of the state is significant because public goods are associated with long-run economic growth (Acemoglu and Johnson 2005; Batchelder and Freudenberger 1983; Djankov et al. 2003; La Porta et al. 1997; Rodrik et al. 2004).

The predatory theory questions improving social welfare as a positive explanation for the behavior of rulers. In the predatory view, the specialist in coercion is mainly motivated by acquiring revenue and asserting control over land and labor (Levi 1988; Scott 2017). The predatory theory conceptualizes of the process of institutional change as guided by competition among groups to secure rules that advantage members (Holcombe 2018; Knight 1992; Vahabi

¹ Piano (2018) shows the ways the public choice literature informs the analysis of how state capacity relates to economic development.

² See Powell and Stringham (2009) for an excellent review of Hobbes' perspective on anarchy and the subsequent public choice literature on private governance.

2004, 2009). The rule of law only exists when individuals establish institutions of collective action to continually limit the scope of the predatory state (Barzel 2002). Institutions such as democracy, by constraining the reach of the predatory state, improve citizens' incentives to create wealth (Holcombe 2019). The characteristics of assets also provides insight into rulers' behavior (Vahabi 2015, 2016). The scope of the state is more likely to be limited when assets are fugitive—that is, when assets are mobile and challenging to appropriate. Predation is hypothesized when assets are captive, which are immobile and capturable.

We agree with the predatory view that rulers are fundamentally self-interested, and that group conflict steers the process of institutional change. Our theoretical contribution is to provide a richer account of the mechanisms that create incentives for the state to create rather than destroy wealth. First, political stability matters: rulers are more likely to choose policies that create wealth when they maintain control over their territory. Second, the extent of predation depends on political constraints, especially separation of powers and political decentralization. Third, the extent to which self-governing organizations constrain predation depends on whether they are themselves predatory. Clans, gangs, and mafias are, like states, forms of governance, as are customary and tribal organizations. Self-governing organizations are more likely to constrain the predatory state when the internal rules of those organizations constrain key decision-makers and enable participation in group collective action. Finally, there are at least three types of foreign intervention that influences the scope of the predatory state: foreign aid, colonialism, and foreign military presence. Foreign aid and colonialism each can contribute to wealth destruction by relaxing the budget constraint on predatory rulers and also by undermining institutions constraints on rulers. Foreign military presence is in some instances a source of corruption and

patronage that also makes it easier for the specialist in coercion to expropriate wealth from its citizens.

We use historical and fieldwork evidence from Afghanistan to illustrate the logic of wealth-destroying states. One of the defining features of state-building in Afghanistan, both historically and in the current context of the US-led effort after 2001, is increasing state capacity. Increases in state capacity have often resulted in predation, including land expropriation or outright violence against groups opposed to the political regime, because the increases in capacity have not occurred alongside establishing political constraints. Foreign intervention—the British in the nineteenth century, the Soviets from the 1950s until communism collapsed, and now the Americans—amplifies these wealth-destroying features of domestic institutions. The patron has changed, but patron-client relations has been relatively constant. Foreign aid has in some cases directly enabled predatory rulers, while foreign military presence is implicated in massive corruption. Customary self-governance routinely provides public goods and sometimes limited the scope of the state, but is often challenged by predatory self-governing organizations, especially the Taliban.

2 The scope of the predatory state

The contract perspective views the state as an efficient solution to political, economic, and social problems. North and Thomas' (1973) economic history of Western Europe describes the state in such terms. According to North and Thomas, feudalism was an efficient institutional and organizational arrangement for centuries. Eventually, the scale of economic activities and external threats increased. The state could more efficiently enforce contracts and private property, regulate emergent financial markets, and provide collective security than feudal lords.

Adam Smith also developed a theory of the state. According to Weingast (2017a, 2017b), Smith believed that there was much violence and property insecurity under feudalism, and neither kings nor lords could provide order. This changed with the emergence of towns, which provided a more effective military organization than feudalism. Towns made possible liberty, commerce, and security from violence. Eventually, the lords demilitarized, becoming consumers that increased traders' demand for goods and services. Smith also recognized the importance of separation of powers for the emergence of wealth-creating institutions.

Batchelder and Freudenberger (1983) argue that the state was an efficient response to political upheaval caused by the cannon and other gunpowder weapons. The medieval castle was a self-contained fortification with advantages over large attacking forces but could not deter a region under attack, which was more readily accomplished by a centralized, bureaucratic military organization that could use its entire military capability to deter aggressors against any region within the country. The incentives for plunder and hence the benefits from collective defense also increase whenever the state creates wealth-maximizing institutions (Hendrickson et al. 2018). In early societies, policies that limited capital accumulation and therefore growth may be efficient. However, it is more efficient to finance defense through taxation and borrowing once societies become wealthier (Thompson 1974, 1979).

The accounts share with Hobbes the presumption that the state improves social welfare, but they did not naïvely ignore predation. North and Thomas explain that the European states faced fiscal crises around 1500 as a result of war, famine, plague and pestilence. One of the consequences of the population drop was that the state needed more revenue.³ European monarchs could promote commerce and tax the wealth or they could choose predation, including

³ The Black Death undermined private property rights because enforcement became more costly with lower population densities, but also accelerated the decline of feudal institutions (Haddock and Kiesling 2002).

expropriation of land, selling of monopoly privileges, and forced loans. England and the Netherlands experienced economic growth because they promoted commerce, while Spain and France declined economically because they extorted the wealthy and traders.

The contract and predatory theories recognize that rulers are self-interested, but the predatory view is much less optimistic that the state will do what is in society's interests. Scott (2017) considers the political economy of the earliest states, which came about as societies transitioned from hunter-gatherer modes of subsistence to fixed-field agriculture. Grain was the ideal crop for tax collectors because it cannot easily be hidden and ripens over a short period. The early states expanded where communities relied on grain for subsistence. Eventually, an elite class of rulers emerged with an interest in protecting grain-producing farmers, which they did by building walls around cities and establishing standing armies. Scott describes these early states as "population machines" that specialized in controlling and capturing additional labor. However, the population machines were vulnerable to epidemics and were surrounded by "barbarians"—mobile societies relying on hunting and gathering, pastoralism, and slash-and-burn agriculture. Eventually, barbarians began to trade with these states, providing them with slaves and mercenary services exchange for grain.

In the predatory view, politics is a struggle among groups to dominate one another (Holcombe 2018; Vahabi 2015). The extent of predation depends on what the predator is able to capture, but also on the ability of the prey to evade capture. The scope of the predatory state shrinks when assets are fugitive and expands over captive assets, such as land and oil. Countering predation requires that individuals establish institutions of collective action that continually provide opportunities for the prey to defend themselves from the predatory state

(Barzel 2002; Holcombe 2019). Democracy is one such constraint, but even democracy faces pressure from powerful groups that compete for power in democracies (Tullock 1971).

Beyond reflecting the interests of powerful groups and the characteristics of assets, predation is likely to depend on the following. The first is political stability. Olson (1993) recognized how institutional capacity to control the population creates incentives for rulers to choose rules to encourage wealth creation. For Olson, state formation involves replacement of roving bandits, who care mainly in predation, with a state, which he called a stationary bandit. These stationary bandits have incentives to encourage wealth creation even if they are autocrats, provided rulers expect to remain in power for the foreseeable future (Salter and Hall 2015).

Second, political constraints also influence incentives for predatory behavior. The economic history of England nicely illustrates how political institutions contribute to wealth creation, especially separation of powers. In the thirteenth century, the Magna Carta established incentives for the government to respect the rights of landowners, as well as for landowners to accept the authority of the government over certain areas (Leeson and Suarez 2016). North and Weingast (1989) highlight the role of the Glorious Revolution in 1688 to explain England's eventual prosperity. England developed because political institutions limited the power of the sovereign to arbitrarily expropriate property but also because the national government was strong enough to ensure feudal lords could not suppress the spontaneous development of markets. Another important political constraint is political decentralization, which Hadfield (2016, 2017) and Hadfield and Weingast (2012, 2013, 2014) contend is necessary for the rule of law because it addresses the fundamental challenge that rulers powerful enough to protect property can also take it away. Political decentralization can also result in extension of property rights and other

liberties associated with them because politicians have incentives to extend these rights and liberties to secure and maintain political power (Lemke 2016).

Third, self-governance can in some instances constraint the predatory state. The contract theory, especially in the Hobbesian view, does not allow for self-governance. Even the Smithian and Northian theories of the state do not have much of a role for self-governance, as they suggest that feudal organization—a decentralized, largely self-governing arrangement—could not exist with the expansion of economic activities and the larger scale of external threats. The predatory theory of the state also recognizes more of a role for self-governance, which is often how communities cope with a predatory state and (Leeson 2007b; Powell et al. 2008; Scott 1999, 2009, 2012). Indeed, the predatory theory recognizes that freedom sometimes results from a weakening of state capacity. However, not all self-governing associations are productive; some destroy wealth. Self-governance, provided its institutions constrain predation by local, traditional, or customary rulers and allow for local participation in collective action, can limit the predatory state and contribute to freedom. However, self-governing organizations that do not have institutional constraints and opportunities to participate in collective action may simply partner with the specialist in coercion to subjugate people.

Much of the literature on the predatory state focuses on domestic institutions. However, there are at least three types of foreign intervention that influence predation. First, foreign aid can amplify the perverse incentives created by predatory political institutions by softening the predator's budget constraint (Coyne et al. 2016; Dutta et al. 2013). According to Kornai (1986), one of the fundamental differences between politics and markets is that governments often face a soft budget constraint that allows them to continue to behave in ways that destroy wealth. Predatory states depend in part on the softness of their budget constraint (Vahabi 2012, 2014).

Eventually, declining revenue as a result of poor policy and institutional choices can harden the budget constraint and create a sort of evolutionary pressure to adopt institutions to create wealth.⁴ Foreign aid softens the budget constraint, thereby reducing the incentives to reform institutions. In some situations, the result is a rentier state in which the government depends almost entirely on patronage. Second, colonialism can influence the quality of local self-governance, such as by dismantling constraints on customary and traditional rulers at the local level (Palagashvili 2018). Third, military intervention or occupation can result in corruption and patronage tied to military contracts necessary to sustain the foreign military presence. Predation is more likely when the political context is characterized by widespread corruption and when patronage is acceptable.

Summarizing, the incentives of rulers to destroy wealth are expected to come from a combination of political instability, empty political constraints, dominance of predatory self-governing organizations vis-à-vis non-predatory ones, and pervasive foreign intervention. The specific targets of predation are likely to be weaker groups and captive assets.

3 The political economy of Afghanistan's predatory state

3.1 State formation and attempts at consolidation

The Afghan state first came about in 1747, when customary and tribal representatives approved Ahmad Shah Durrani, a Pashtun military general from the Iranian Afsharid Empire, as the first

⁴ Alchian (1950) was among the first to relate evolutionary pressure to economic behavior. North (1981) suggested such pressures would result in the emergence of efficient economic institutions, although North's later work recognized organizations (North 1990) and culture (North 2005) as constraints on the emergence of wealth-creating institutions. Demsetz (1967) was optimistic that competitive pressure would lead to adoption of private property rights in response to open-access losses, a perspective criticized by Libecap (1989) and Sened (1997) because it failed to account explicitly for political incentives. Nonetheless, it is clear that evolutionary pressure is likely to result in at least some pressure to change institutions, often in efficient ways.

leader of the Afghan people.⁵ The Durrani Empire, as it was called, was established by a Loya Jirga, or Grand Council, which is the customary method that Afghans use to decide matters of collective importance. The weakening of Nadir Shah's Afsharid Empire gave Afghans an opportunity to assert their independence from traditional imperial adversaries in a parcel of land in what is now Iran and India. However, the early Afghan state did not have a permanent army or infrastructure to collect taxes. It subsisted on conquest of neighboring empires (Rubin 2002).

Even though the Afghan state lacked significant capacity, it was a cosmopolitan empire (Crews 2015). The country became a hub connecting the surrounding empires with vibrant overland trading networks (Hanifi 2011). These markets enabled expansion of domestic production, including the fruit trade. None of this was a result of government policy. There was no formal commercial law at this time. Rather, these trading routes emerged spontaneously.

Land property rights also emerged as a consequence of a feudal bargain between local informal elites and the king. Local elites provided conscripts to rulers in exchange for rights to allocate land use rights locally (I. Murtazashvili and Murtazashvili 2016a). The military conscription system was not slavery, but it was feudal in the sense that local elites exchanged men for land-use rights. The families of those men who were conscripted were compensated. This arrangement, because it provided conscripts to the state, marginally improved the military dimension of state capacity. The feudal bargain also provided the political foundation for a basic system of land use rights. It was a self-enforcing arrangement, as the monarchy and customary elites benefitted, as did the families of conscripts, who were compensated.

The early Afghan state was a predator; those in surrounding areas who could not defend themselves became the prey and lost their land. The traders, as mobile prey, were harder to

⁵ Durrani literally means "pearl of pearls." The Durrani is one of two major sub-tribes of the Pashtun tribal confederation. The other is Ghilzai. The vast majority of Afghan rulers have been Durrani Pashtuns.

detect and hence more challenging to extort. Yet assets are still only part of the story. The early Afghan system of governance was a de facto federation. Local customary and tribal society balanced the national government, making the political regime a de facto federation. These decentralized features of the Afghan state enabled the spontaneous development of markets. State weakness also created incentives for the government to bargain with local elites, but also to respect local property institutions.

Even though decentralization contributed to the emergence of markets, Afghanistan's rulers have generally thought of decentralization as a weakness. Most notably, Abdur Rahman, who ruled the country from 1880 until 1901, viewed political decentralization as a source of instability. Abdur Rahman was exiled prior to securing political power and so he did not have the strongest claim to political power, which belonged to Ayuub, who was the son of Sher Ali—the king who immediately preceded Abdur Rahman. However, Abdur Rahman was skilled in battle, and defeated Ayuub and his forces at the conclusion of the Second Anglo-Afghan war (1878-1880). When the British partially retreated, they handed Abdur Rahman political control of Afghanistan. The British also gave Abdur Rahman a generous subsidy in exchange for his ceding foreign policy autonomy to them, which allowed him to participate in the international arms trade (Barfield 2010, pp. 153–154).

Abdur Rahman believed that political decentralization encouraged the British to interfere with Afghan affairs. Abdur Rahman complained that the “middlemen” of Afghan society, including customary leaders, tribal elites, and religious authorities, were a source of disunity. He also declined to appoint his blood relatives to key positions because he thought that non-hereditary governors would be easier to control because they had no blood claim to the throne (Rahman 1900).

Abdur Rahman nonetheless depended on middlemen, especially local power brokers, to strengthen his military. Abdur Rahman offered community-based customary leaders, including khans and other local notables, refined clothing or remission of taxes in exchange for fulfilling their obligations. Some khans received military ranks.⁶ In the north, every third man was to serve, but this was replaced by the *hasht nafari* system, where one man of every eight would be chosen members of the community to serve in the irregular force. This proved effective in increasing the number of soldiers to unprecedented levels. However, the Afghan army did not have a common identity, as its members had different allegiances driving from qawm, clan, and ethnic groups.⁷ He was ultimately able to suppress many of his adversaries, in part because of his changes to military conscription (Johnson 2012, pp. 141–143).

In the Olsonian framework, the state promotes trade by subjugating roving bandits.

Abdur Rahman certainly claimed in his autobiography that is what he was doing:

I ordered that the heads of all those who were killed in battle should be piled up in the shape of two big towers — one at Jellalabad, the other at the residential place of Shahmad, who had encouraged them in their misbehavior; so that people, when looking at those towers built with the heads of the rebels, should know that this is the reward for those who kill travelers (Rahman 1900, p. 237)

Perhaps Abdur Rahman did something to promote trade by killing some robbers. Yet his more general policy was to destroy commerce and property rights. He drastically increased tax rates and what was taxable, as well as attempted to reroute trade so he could tax it. He used land repopulation as a way to weaken those who opposed his rule. By moving people, he hoped to

⁶ In Afghan social relations, a khan is a local power broker but also a local self-financed public servant (Anderson 1978).

⁷ Qawm refers to one's place in society and is a fundamental aspect of Afghan social identity (Roy 1990). The concept of qawm transcends ethnicity and is based in a shared history or experiences.

break their bonds to their land and communities and make them more dependent on him for protection (N. Tapper 1983).

Abdur Rahman's policy governing railroads further illustrates his prioritization of control over economic development. Railroads are considered a public good, which along with communications infrastructure, are associated with economic growth (Donaldson 2018; Fishlow 1965). Despite their potential to reduce transaction costs and increase interregional trade, Abdur Rahman stopped railroad construction and prohibited the construction of rail lines inside of Afghanistan. He reasoned that railroads could carry British troops and munitions into the country, making it easier to occupy. Another reason for doing so was that if Afghanistan was poor, then it would not be as attractive to foreign powers (Rahman 1900). Poverty was a strategic choice, one that was made easier because of the British subsidy.

Abdur Rahman most clearly exerted authority over land, which is a captive asset. He also targeted trade and railroads, the foundation of commerce, each of which promise a more liberal political order by limiting the scope of the predatory state. However, the political context also explains the extent of predation. The country was never politically stable; there were dozens of major battles. Declining political constraints also enabled predatory behavior. Abdur Rahman fought wars against regional powerholders that had previously constrained Afghan kings. He also claimed authority based on religion, rather than on consent of customary and tribal leaders. In 1895-1896, he forced the conversion of inhabitants of Kafiristan to Islam, after which he renamed the province Nuristan, which in Persian means "Land of the Enlightened." Abdur Rahman then declared himself *Zia-ul-Millat-Wa-ud Din*, which means "Light of the Nation and Religion." He also delimited the authority of the Loya Jirga and filled it with his allies to remove

a constraint on arbitrary exercise of political power. The scope of the predatory state expanded with the weakening of political constraints.

The Iron Amir also recognized that self-governing communities of Afghan society were a source of legitimacy outside of the state. He attacked that basis of Afghan governance, seeking to replace bonds of society with allegiance to his state. Although Abdur Rahman was unable to break these bonds, his policy shows that he clearly understood that self-governance limited the predatory state.

Nor can predation be understood in isolation from foreign intervention. The two Anglo-Afghan wars were used by Abdur Rahman to justify his efforts to establish a centralized, unconstrained government. British subsidies, which allowed Abdur Rahman to participate in the international arms market, directly increased his ability to prey on his subjects. The British wanted someone they believed they could control, paying him off with the subsidy; but the arms he purchased were used to decimate his opposition.

There was nothing “developmental” about Abdur Rahman’s state. Vahabi (2016) uses the US government in the nineteenth century as an example of a predatory *developmental* state. The US government was predatory because it used the army and railroads to expropriate common property from Native Americans to make it available for White settlers. It was developmental in that the land was often used productively, but clearly predatory vis-à-vis American Indians. The Afghan state was only predatory: it disposed people of their land, banned railroads, and suppressed trade, in addition to waging violent wars of internal colonization. The explanation as to why these countries varied is not simply due to assets, but to the characteristics of political institutions. The early US benefitted from separation of powers, constitutional protection of property, and federalism, each of which increased the government’s commitment to markets and

to economic development, as well as higher degrees of political stability—a four-year civil war in the US that resulted in freeing Black Americans from slavery compares favorably to the recurrent political violence for much of Afghanistan during the nineteenth century that did little to improve rights for any group. Foreign intervention exacerbated Afghanistan's predatory institutions. Hence, economic agents in the US and Afghanistan in the nineteenth century each faced a predatory state, but the US government eventually promoted economic development, while the Afghan state simply destroyed wealth.

3.2 The persistence of predation

Abdur Rahman's son, Habibullah Khan, ruled Afghanistan from 1901 to 1919. Habibullah Khan faced few rebellions, did little to promote economic development, and was assassinated in 1919. He presided over a less predatory state than his father's, but it was still not a predatory developmental state. The Iron Amir's grandson, Amanullah, was much more reform-minded than any previous Afghan ruler. Inspired by Mustafa Kemal Atatürk's secular regime in Turkey, Amanullah proposed several liberal reforms, including education for girls, abolition of the bride price, and establishing a lottery to select conscripts to the army (thereby eliminating the role of communities in selecting who would serve). However, these reforms conflicted with the existing social and religious norms and values of Afghan society (Poullada 1973). Amanullah was overthrown in 1929 after a short civil war initiated by a Tajik peasant, Habibullah Kalakani. Amanullah overestimated the strength of his army. One issue was that his changes to the conscription system, which he believed would modernize the army (as well as improve the legitimacy of the process), backfired: local elders and notables refused to participate, viewing it as an affront to their role in selecting who would fulfill the levy.

Habibullah Kalakani could not govern effectively. He had very little leadership or formal military experience but also did not have legitimacy to rule because he was Tajik. The ruling Pashtun aristocracy considered Tajiks a “peasant” class, and no Tajik had ever ruled Afghanistan before. He was ousted after only nine months by Nadir Shah, a Durrani Pashtun of the Musahiban clan and one of Amanullah’s former generals. Nadir Shah enjoyed legitimacy because he came from the privileged Durrani tribe, which had ruled Afghanistan since the time of Ahmad Shah, but was assassinated in 1933. Nonetheless, members of the Musahiban—his clan—would rule for the next four decades.

Zahir Shah ascended to the throne in 1933 as a teenager after his father’s assassination. To govern, he relied on his older cousin, Mohammed Daud. Daud was a career military officer who was able to maintain political order as prime minister, in large measure because he enjoyed the support of the military establishment. However, part of the reason why the Musahiban achieved a high degree of order (for the Afghan context) is because they leaned heavily on foreign assistance. Beginning in the 1950s, aid from the Soviet Union became much more important to the Afghan regime. According to Barfield (2010), the subsidies were perhaps the driving force behind Afghanistan’s long internal peace.

In an effort to increase his authority, Zahir Shah removed Daud from his position as Prime Minister in 1963. In 1964, Zahir Shah fully assumed power and declared Afghanistan to be a constitutional monarchy. The country held the most open parliamentary and local elections in its history after he removed Daud. However, the country’s political and economic situation was grave. Government revenue from domestic taxes declined to almost nothing during the Musahiban rule. Ordinarily, declining public revenue would harden the budget constraint and create incentives for the government to choose public policies to encourage economic

development. However, the Afghan government could call on its largest patron, the Soviet Union, for assistance.

Eventually, economic underdevelopment contributed to political disorder. Based in part on a theory that radical economic reform was needed, Daud seized power from his cousin in a largely bloodless coup in 1973. President Daud abolished the monarchy by decree and began to implement economic reforms, including redistribution of land, as well as began appointing members of the Parcham (lit. “flag”)—one of two leading factions of the Afghanistan’s communist party (PDPA)—to positions of authority in rural parts of the country. However, the Parchamis were inexperienced and in some cases became as corrupt as their predecessors (Dupree 1979). The other leading PDPA faction, the Khalq (lit. “masses”), also believed the pace of economic reform was too slow. The Khalqis overthrew President Daud by assassinating him in April 1978, which they called the Saur Revolution because it began in month of Saur in the Islamic calendar.

Soon after taking power, the Khalq announced much more radical economic reforms, including redistribution of land in small amounts and abolition of the credit system. However, many in the countryside objected to communist ideology and slogans, which were viewed by many Afghans as anti-Islamic. Afghan society also had a long history of private ownership of property, yet the communists believed that the state could redistribute land as its pleased (Edwards 2002). The Khalqis also began to purge the Parcham from government. This infighting further undermined the government’s ability to implement its preferred policies (I. Murtazashvili and Murtazashvili 2016b).

Realizing the pace of reform was far too rapid for the Afghan context and would spur instability, the Soviet Union intervened in an effort to stabilize the government in December

1979. By the time the Soviets occupied Kabul, the anti-communist insurgency, the mujahedeen, had already organized in opposition to the regime. Although the PDPA would nominally remain in power until 1992, the country was in nearly continual conflict during the communist rule. Near-anarchy prevailed after 1992, but by 1996, the Taliban controlled much of the country.

The Taliban established order in many parts of the country but did almost nothing to promote economic development. The Taliban allowed and even encouraged smuggling, which it could tax, and promoted the opium trade (Rashid 2010). However, Taliban taxation of poppy farmers was extreme; they retained almost none of the value of what they produced. The regime also did almost nothing to encourage international investment.

The government during these times continued with predation, or at least did little to encourage wealth creation. Land redistribution continued, which reflects its status as a captive asset. Similar to earlier periods, political institutions enabled destruction of wealth. There were no meaningful political constraints on the PDPA government, not the Taliban. The absence of inclusive political institutions ensured that government reforms did not reflect local preferences or local institutions.

Customary governance constrained the state to an extent but was often subjected to brutality. The communist government recognized the prominent role of customary governance in Afghanistan, which is why they often attempted to replace village representatives with their own agents. The means of coercion also included institutions such as the Afghan KGB, the KHAD, who were absolutely brutal in enforcing the PDPA policies. The KHAD also remained after the fall of the PDPA, as the Afghan Northern Alliance used it. The Taliban often killed customary leaders, afterwards elevating mullahs to positions of authority in village governance (J. Murtazashvili 2016).

International influence continued to enable destruction of wealth. Soviet patronage in the 1950s and 1960s reduced incentives to liberalize the economy and promote development. Patronage also was responsive for the more radical policies in the late 1970s: underdevelopment provided some legitimacy for more extreme redistributive policies of the PDPA government. Moreover, Soviet military occupation ensured a continuation of the insurgency, as well as brought with it a massive inflow of arms that further contributed to internecine violence.

3.3 Post-conflict reconstruction

Beginning in 1992, groups competed for political authority for several years with no clear winners. However, by 1996, the Taliban controlled much of the country. In 2001, US Special Forces and Afghan allies forced the Taliban government from power. There have been four rounds of elections for national office, beginning with the election of Hamid Karzai in the country's first ever presidential election in 2004 and several rounds of elections for Wolesi Jirga, the national legislature.

Besides elections, state-building has not fundamentally changed the political and administrative structure of Afghanistan. The country is organized into 34 provinces and over 400 districts below. The political system is nonetheless centralized, with officials in Kabul appointing district and local governors and making nearly all spending and budgeting decisions. Although there have been elections for provincial councils, the councils are very weak and have no oversight over provincial governors who are appointed by Kabul. There are no direct elections of any executives at the subnational level. The current Afghan constitution promises village elections, but after nearly two decades, elections have not been held for village councils (Jochem et al. 2016).

Despite formal centralization of political power, Afghanistan remains a de facto federation. Based on fieldwork conducted in between 2005 and 2012, we found that there is a common structure of customary governance that consists of village representatives, deliberative councils, and religious figures.⁸ Village representatives resolve conflicts in the community and deals with local government officials on behalf of the village. The names of those who hold these positions in differ across the country—they are known variously as malik, arbob, or wakil—but each name connotes a village representative. Most communities have deliberative councils (which are known as a shura or jirga, depending on the location or ethnicity of the community) that provide for popular participation in matters of collective importance. Village-based religious leaders in rural Afghanistan are are called mullahs.

One of the functions of customary governance is to provide public goods at the community level, such as dispute resolution, including resolution of land disputes, as well as to maintain important records, such as customary deeds to land (I. Murtazashvili and Murtazashvili 2016c). These customary deeds are not legally recognized, but they are routinely used in communities as valid ownership documents. In instances where there are disputes among several communities, the communities may call upon their community representatives to attempt to resolve disputes. Settled and nomadic communities may also resolve disputes, such as those arising over contested claims to pasture, through their representatives (Stanfield et al. 2010). Customary representatives may work with district officials to help them govern, such as by working with local governors (wuluswals) on issues of security (J. Murtazashvili 2014).

⁸ Public opinion surveys of the country continue to show the persistent legitimacy of customary authority vis-à-vis formal state organizations (see Asia Foundation 2018).

A focus group discussion of rural villagers in Balkh Province illustrates the functions of customary governance in Afghanistan.⁹ When asked how people in their community resolve disputes among members of nearby villages, one of the male informants mentioned that representatives of the villages “come together and talk and discuss their problems. They find a way to resolve these issues by the advice of these representatives.” Their representatives were called *spinzheri* (lit. ‘white beard’ in Pashto). This translates as “elder,” but in the context it referred to representatives. In fieldwork, we found that a “white beard” can be as young as their late 20s. They also explained that this is the way disputes are typically resolved among those in the community. Another of the men explained “When there would be a problem in a family or in the village they would come together and discuss the problem. And they would find a good way for people to settle issues. Also, at that time [before the war] people had good unity in the village. They were able to work together. People would call this meeting [a] *jirga*.” The specific process is as follows: “The *jirga* had some formula or a decision rule that was brought in by both parties to the dispute. Both sides would sit in the *jirga* and both sides would have a representative. Every representative accepted their responsibility. One representative told another representative, ‘If my side doesn’t accept the decision, they should pay them some money, or the other side should receive some other kind of punishment.’” They would only refer complainants to the government when neither side agreed to the proposed solution, which neither side typically wants because the government (and courts) are perceived a corrupt and costly to use.

Another feature of Afghanistan during the state-building era is continued reliance on foreign aid. Today as in the past, Afghanistan is a rentier state. The massive amount of foreign aid flowing into the country with the state-building effort has in many instances resulted in

⁹ Focus group, Balkh Province, Dawlatabad Province, June 2007.

corruption, or at least has not achieved its goals, which led for calls to reduce foreign assistance to increase its effectiveness (Suhrke 2011). The Taliban remained strong in many parts of the country despite substantial investment devoted to counterinsurgency.

Some of the foreign aid projects that have been most effective are those which embrace customary governance. Community-based land reform projects are an important example. These projects serve as an alternative to legal titling, which is registration of land ownership through a centralized, legal process.

Legal titling is based on a sound economic logic: with incomplete property rights, people have fewer incentives to invest in their land and businesses, local governments will have less revenue. Indeed, legal titling can in some contexts improve investment incentives (Galiani and Schargrodsky 2010). However, the justification for legal titling is by no means clear (Ho 2016; Holland 2017). One reason is that the positive consequences of a legal title depend on the behavior of the state. A legal title is a claim backed by the state, and hence legal titling and the behavior of the predatory state cannot be neatly separated.

The nature of the Afghan state provides insight into why legal titling has been less effective in improving household land tenure security than community-based land adjudication and registration that eschews a role for the state. The legal titling projects that have been attempted in Afghanistan have standard ones in which the government issues a legal document to people specifying that they own land. It might seem that such projects would be welcome in Afghanistan, but when given the option, few Afghans registered land through a formal, legal process (Gaston and Dang 2015). Upon inspection of the institutional context, this should not be surprising. The Afghan state, despite the state-building investment, does not have much capacity to record ownership and remains largely unconstrained. Another challenge is that the police, who

to an extent enforce property rights, are often unreliable (Giustozzi and Isaqzadeh 2013). Courts who should enforce these decisions, are among the most corrupt institutions in the country (I. Murtazashvili and Murtazashvili 2015). Thus, people with a legal title cannot necessarily rely on the state to enforce those rights, courts to adjudicate them, or the government to respect them in the future. Consequently, it is not surprising that individuals demurred when given the option of registering their legal titling with the government or maintaining customary deeds over their land.

Legal titling is not the only way to register land ownership. In many communities, development workers registered ownership of land and commons through a community process. Murtazashvili and Murtazashvili (2016d) explain that the difference between the community process of registration and legal titling is that the former is registration exclusively at the community level, without the government. Development workers first asking the community if they required assistance, and then worked with customary governance to record ownership within the community. There was no presumption of legal recognition. Rather, this process clarified ownership within the community. Such efforts were nonetheless successful in improving the security of land tenure.

The continuity of predation reflects several features of the context, including instability. Mukhopadhyay's (2013) fieldwork accounts of governance in Afghanistan shows that when there is stability, former warlords are often accountable and can govern effectively. Even the Taliban, where they have local monopolies, sometimes provide public goods, such as dispute resolution (Baczko 2016; Malkasian 2013). Nonetheless, continued instability in the country more generally reduced the expectation that the government could solve people's problems,

mainly because such instability implies either the inability to govern or disincentives to do so effectively.

Afghan state building by and large sought to increase capacity to provide public goods but without an accompanying effort to establish political constraints, including separation of powers or political decentralization. The president dominated national politics. Federalism is de facto, but not de jure. The Afghan Constitutions had much less emphasis on civil liberties than on entitlements but has not delivered on those promised entitlements, which further erodes the legitimacy of the new democratic regime. It should be unsurprising that the vast majority of Afghans interviewed during fieldwork believe that the current government cannot be trusted to improve problems facing rural Afghans.

Customary governance is resilient but is routinely excluded from the state-building process. The post-2001 government did not explicitly attempt to coopt customary governance. Nonetheless, it has not worked closely with self-governing organizations. It has simply ignored their presence. Such missed opportunities undermine opportunities to improve the quality of governance in a context in which the state is exceedingly weak.

Foreign intervention continues to undermine the quality of governance. One example is the National Solidarity Program (NSP), which was been implemented by the World Bank and Afghan government. The NSP is an example of a community-driven development project. In Afghanistan the project was to provide village level infrastructure, build social cohesion, connect citizens to the government, and promote local democracy. While such projects may appear to be useful and well-designed, they sometimes enable predation. Murtazashvili (2016) provides evidence that of commanders who returned to communities they had left in order to capture some of the aid money that was flowing into the community with minimal oversight.

One consequence of foreign military presence is corruption. The dense network of contracts required to sustain US military presence in Afghanistan creates many opportunities for corruption (Tierney 2010). Although there have been efforts to monitor corruption, these efforts have not been hugely successful (Nordland and Sukhanyar 2016). Afghan warlords and associated entrepreneurs have learned how to use foreign military contracts for their own gain (J. Murtazashvili 2015). Whatever the benefits of US military presence, corruption and patronage are costs that erode opportunities for wealth creation.

4 Implications for state building

Over the past several decades, countries such as the US have invested much blood and treasure to reconstruct weak states, including Iraq, Somalia, Syria, and Yemen. The presumption is that a stronger state is necessary for political order and economic development. Fukuyama (2011, 2014) suggests that a strong state depends on state building (establishing a modern bureaucracy), rule of law, and accountable government.

Fukuyama acknowledges that increases in state capacity should occur alongside efforts to establish the rule of law and to improve accountability of government. However, the rule of law depends to an extent on political constraints, such as separation of powers and political decentralization, each of which can contribute to the emergence of self-enforcing rule of law. Nor does Fukuyama consider explicitly how state building relates to self-governance. Self-governing organizations are often a source of local public goods provision and can help to defend against the predatory state. International assistance efforts that work with such organizations, and shield them from predation, can improve the quality of local governance, as well as further limit the predatory state. It is also necessary to recognize that state-building can strengthen the wrong kind of self-governing organizations. In Somalia, state-building efforts that

improve political stability have in the past increased illicit and illegal activities (Shortland and Varese 2016; Shortland and Vothknecht 2011). The reason is that criminal organizations, like many legitimate organizations, are businesses (Shortland 2019). Accordingly, they may benefit from political stability, including that which results from state-building efforts (Percy and Shortland 2013).

It is one thing to consider a richer set of political institutions that contribute to political order and economic development, as well as to investigate the relationship between state-building and self-governance. A more pressing challenge to state building is that wealth-creating states emerged over very long periods of time. Adam Smith's theory of violence, referenced earlier, locates England's wealth-creating state in the decline of feudalism and the rise of towns over a period of centuries. Much of the process was spontaneous. The inability to construct more effective states in over the past several decades suggests that the problem may be that it is not possible to construct a more effective state by design.

One way to proceed may be to scale back state-building, such as by reducing foreign aid or military presence. Another possibility is to shift the focus from national government capacity to building partnerships with local government and communities. Communities and local governments are also subject to predation (Boettke et al. 2011). However, the risk of predation by self-governing organizations and local government seems much lower—and lower stakes—than predation by the national government, especially since most weak states have exceptionally corrupt governments. A reasonable way to proceed is with a less ambitious approach to state building that appreciates spontaneous order, with emphasis on providing opportunities endogenous emergence of effective institutions, rather than accepting ones imposed or funded by the international development/donor community.

5 Conclusion

We expanded the scope of the predatory state beyond a focus on asset specificity and group conflict by considering the role of political stability, political institutions, self-governance, and foreign intervention. Doing so helps understand why the Afghan state has persistently destroyed wealth. Afghan rulers have generally had a precarious monopoly on authority, efforts to increase state capacity have generally occurred without similar effort to establish constraints on arbitrary exercise of political power, and foreign interventions have in some cases directly, and often indirectly, encouraged and enabled predation. The constraints that exist have typically come from customary self-governance, although in many instances, these informal orders are overwhelmed by the Afghan state or predatory self-governing organizations, such as the Taliban.

The public choice literature also helps understand prospects for state-building. One of its general implications is that state-building is a massive government intervention and hence information and incentives problems confronting all government action are likely to be especially severe. Accordingly, these efforts should recognize the importance of balancing capacity with constraints, recognize the importance of political decentralization in the emergence of rule of law, and seek out a space for self-governing organizations. It also suggests scaling back foreign aid and perhaps foreign military presence. Whether or not there is political will to make these changes in how we think about state-building remains to be seen.

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